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BAD BOY
Appliances and Furniture Limited

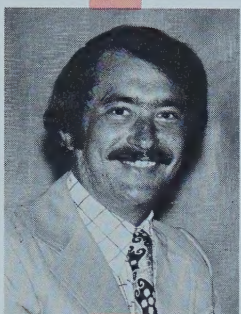
ANNUAL REPORT

for year ended March 31, 1973

Financial Highlights

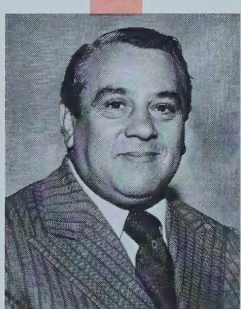
	MARCH 31, 1973	APRIL 1, 1972	NET PERCENTAGE CHANGE
Sales	**$33,432,959**	$24,108,776	+38.7
Earnings before income taxes	**2,390,696**	1,495,367	+59.9
Net earnings from operations	**1,214,981**	748,622	+62.3
Add: Extraordinary items	**—**	23,324	
Net Earnings	**1,214,981**	771,946	+57.4
Net earnings per share from operations	**$1.21**	$0.75	+62.3
Net earnings per share	**$1.21**	$0.77	+57.4
Number of shares outstanding	**1,000,000**	1,000,000	—
Working capital ratio	**1.6:1**	1.6:1	
Total Assets	**$9,052,808**	$6,526,827	+38.7
Long Term Debt	**23,000**	23,000	—
Shareholders' equity per share	**$4.03**	$2.87	+40.4
Approximate number of employees	**330**	270	
Number of stores at year-end	**26**	25	

Melvin D. Lastman



Allen C. Lastman

Ronald K. Lansing



Ben S. Mandell

Directors

Myrle W. Book
Weston, Ontario
President of M. Book Management Limited

Jack Friedman, Q.C.
Toronto, Ontario
Partner in the law firm of Friedman, Burton and Eisen

Ronald K. Lansing
Islington, Ontario
Vice-President, Corporate Development of the Company

Allen C. Lastman
Thornhill, Ontario
Executive Vice-President and Secretary-Treasurer of the Company

Marilyn Lastman
Willowdale, Ontario
Assistant-Secretary of the Company

Melvin D. Lastman
Willowdale, Ontario
President of the Company

Officers

Melvin D. Lastman
Willowdale, Ontario
President

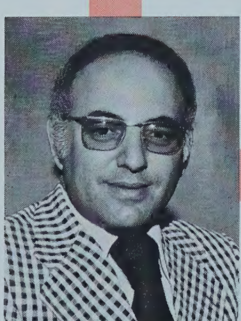
Allen C. Lastman
Thornhill, Ontario
Executive Vice-President and Secretary-Treasurer

Ronald K. Lansing
Islington, Ontario
Vice-President, Corporate Development

Ben S. Mandell
Downsview, Ontario
Vice-President, Sales

Samuel A. Stenzler
Downsview, Ontario
Vice-President, Advertising

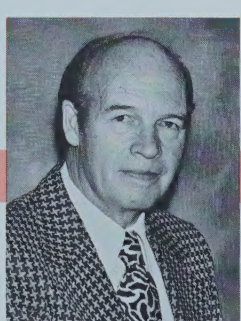
Marilyn Lastman
Willowdale, Ontario
Assistant-Secretary



Samuel A. Stenzler

Marilyn Lastman

Jack Friedman



Myrle W. Book

THE NEW LOOK

President's Message

On behalf of your board of directors, I am pleased to submit the 1973 financial results for our first year as a public Company. The common share offering in July 1972 was a significant event in the Company's 18 year history. Becoming a public Company has made us increasingly aware of our responsibility to our shareholders and has presented our management team with a challenge to continue the sound growth of the Company.

The year ended March 31st, 1973 was one of further progress with sales and earnings achieving new record highs. Sales were $33,432,959 which represents an increase of 38.7% over the previous year. Net earnings from operations increased 62.3% to $1,214,981. Earnings per share including extraordinary items were $1.21 as compared with $0.77 in 1972.

COMPARATIVE SALES ANALYSIS

	1973	1972	NET PERCENTAGE CHANGE
Appliance & Home Entertainment Product Sales	$21,387,773	$16,965,214	+26.1
Furniture Sales	12,045,186	7,143,562	+68.6
Total Sales	$33,432,959	$24,108,776	+38.7
Average sales per store	$ 1,277,700	$ 1,006,000	+27.0

The increase in furniture sales is particularly gratifying as we have been in the furniture business in a major way only since the middle of 1970.

During the past year the Company continued to expand in Ontario. New stores were opened in Mississauga and Ottawa. The store in Kingston was re-located and expanded and the store in Belleville was closed. Three stores in Metropolitan Toronto were expanded and renovated. Management's decision to enlarge and refurbish its stores has resulted in an average 27% increase in sales per location.

Inventories were maintained at a higher level in order to fulfill our "Instant Delivery" programme and in view of an anticipated shortage of merchandise. Higher inventories and expansion resulted in an increase in bank debt but our bank line of credit is sufficient to meet our working capital requirements for the coming year.

Since year end, new stores have been opened with gratifying results in New Toronto and Barrie, Ontario. We have entered into an agreement to acquire the business of a long established independent furniture and appliance retailer in Kemptville, Ontario (30 miles south of Ottawa) which we will operate as a Bad Boy store. The former New Toronto store has been converted to an outlet for damaged goods and will operate under the name "The

Flaw Market". We have agreements to acquire sites for five more stores and it is expected that two of these will be opened this year. During the coming year, our store at 2780 Dufferin Street, Toronto, and our store in Sudbury will be expanded and other older stores will be renovated.

In order to acquire larger and more favorable sites for new store locations and to secure favourable rental terms, the Company successfully embarked upon a programme of acquiring and developing its own sites. This was done in Ottawa, Barrie and Kingston. Once developed, these sites were sold and the store location leased-back by the Company.

The Company entered into a 20 year lease for a 200,000 square foot warehouse located in Etobicoke, Ontario. The building is being built to our specifications and occupancy is expected this Fall. The new warehouse facilities will help support our "Instant Delivery" programme and our expansion plans in the Ontario market. In conjunction with the new warehouse, a computerized inventory reservation system will be implemented. The system will produce instant information at all store locations and at head office as to the availability of merchandise in the central warehouse.

In order to extend the finest service facilities to our customers in the Metropolitan Toronto area, we have centralized our service department at head office and have recently acquired a Toronto business of long standing and good reputation in servicing home entertainment products.

Your board of directors has increased the semi-annual tax-paid dividend and is recommending for approval at the annual meeting of shareholders, a two-for-one stock split.

I should like to express my appreciation for the continued support of our employees, our suppliers, and our customers.

On behalf of the board of directors,

Melvin Lastman
President

June 30, 1973

Consolidated Statement of Earnings

	Year Ended March 31, 1973	Year Ended April 1, 1972
Retail sales	$33,432,959	$24,108,776
Income from operations before the following charges	$ 2,487,615	$ 1,569,623
Depreciation and amortization	96,919	74,256
Income before income taxes and extraordinary items	2,390,696	1,495,367
Income taxes	1,175,715	746,745
Income before extraordinary items	1,214,981	748,622
Extraordinary items	—	23,324
Net earnings for the year	$ 1,214,981	$ 771,946
Earnings per share:		
Before extraordinary items	$1.21	$0.75
Net for the year	1.21	0.77

Consolidated Statement of Retained Earnings

	Year Ended March 31, 1973	Year Ended April 1, 1972
Retained earnings, beginning of year:		
As previously reported	$ 2,954,181	$ 2,682,235
Adjustment of prior years' income taxes (Note 7)	84,100	84,100
As restated	2,870,081	2,598,135
Net earnings for the year	1,214,981	771,946
	4,085,062	3,370,081
Tax paid to create tax paid undistributed surplus	9,000	75,000
Dividend paid out of tax paid undistributed surplus	50,000	425,000
	59,000	500,000
Retained earnings, end of year	$ 4,026,062	$ 2,870,081

See accompanying notes.

Consolidated Balance Sheet

	March 31, 1973	April 1, 1972 (Note 7)
ASSETS		
Current		
Cash	$ —	$ 301,852
Accounts receivable	656,853	436,450
Inventories, at lower of cost and net realizable value less normal profit margin	7,151,600	4,985,000
Prepaid expenses and sundry assets	190,531	176,916
	7,998,984	5,900,218
Investment, at cost	10,000	10,000
Fixed assets (Note 2)	1,043,824	616,609
	$ 9,052,808	$ 6,526,827

On behalf of the Board:

MELVIN LASTMAN, Director

ALLEN LASTMAN, Director

See accompanying notes.

	March 31, 1973	April 1, 1972 (Note 7)
LIABILITIES		
Current		
Bank indebtedness (Note 4)	$ 693,586	$ —
Customers' deposits	405,379	278,927
Accounts payable and accrued liabilities	3,295,737	2,600,871
Income taxes payable	603,854	742,250
Due to shareholders	—	5,508
Current portion of long-term debt (Note 5)	1,000	2,000
	4,999,556	3,629,556
Long-term debt less portion due within one year (Note 5)	23,000	23,000
SHAREHOLDERS' EQUITY		
Capital (Note 6)		
Authorized:		
1,100,000 Common shares, no par value		
Issued:		
1,000,000 Common shares	4,190	4,190
Retained earnings	4,026,062	2,870,081
	4,030,252	2,874,271
	$ 9,052,808	$ 6,526,827

See accompanying notes.

Consolidated Statement of Source and Application of Funds

	Year Ended March 31, 1973	Year Ended April 1, 1972 (Note 7)
Source of funds		
Operations:		
Net income	$ 1,214,981	$ 771,946
Add non-cash charges to income:		
Depreciation and amortization of fixed assets	96,919	74,256
Loss (profit) on disposal of fixed assets	(1,155)	1,215
	1,310,745	847,417
Application of funds		
Purchase of fixed assets (net)	522,979	545,827
Less mortgage thereon, long-term portion	—	23,000
	522,979	522,827
Tax paid to create tax paid undistributed surplus	9,000	75,000
Dividend paid out of tax paid undistributed surplus	50,000	425,000
Redemption of preference shares	—	18,092
	581,979	1,040,919
Increase (decrease) in working capital	728,766	(193,502)
Working capital at beginning of year as previously reported	2,354,762	2,469,464
Adjustment of prior years' taxes of $84,100 less deferred tax charges of $78,800 previously recorded	84,100	5,300
As restated	2,270,662	2,464,164
Working capital at end of year	$ 2,999,428	$ 2,270,662

See accompanying notes.

Notes to Consolidated Financial Statements

1. Principles of consolidation:

These consolidated financial statements include the accounts of the company and its wholly-owned subsidiary Grand Union Holdings Limited. The subsidiary was incorporated on February 27, 1970 and was inactive until the current fiscal period. It is presently engaged in the building of facilities for "Bad Boy" stores.

2. Fixed assets, at cost:

	Rate	March 31, 1973	April 1, 1972
Land and building under construction (Note 3)	—	$ 175,068	$ 53,465
Furniture and fixtures	20%	162,091	147,556
Automotive equipment	30%	55,821	44,386
Leasehold improvements	—	948,677	589,608
Signs	35%	30,924	24,902
		1,372,581	859,917
Accumulated depreciation		328,757	243,308
		$1,043,824	$616,609

The cost of completion of the building under construction is approximately $130,000.

Leasehold improvements are amortized on a straight-line basis over the estimated useful lives of the assets. Other fixed assets are depreciated on the diminishing balance method at the rates indicated above.

3. Real estate transactions:

(i) Sale and leasebacks:

During the year the company and its subsidiary sold certain parcels of land and buildings for $1,200,000 resulting in a net profit before income taxes of $942. Concurrently "Bad Boy" leased back these sites for its own use and sublet excess space. It is the company's policy to amortize profits on sale and leaseback transactions over the term of its lease commitments.

(ii) Offers to purchase land:

As at May 29, 1973 the company had submitted offers to purchase land at a total cost of $1,210,000 which were accepted. Certain conditions must be satisfied or the company can consider the offers null and void. If all conditions on the offers are satisfied, $434,000 will be due on closing (deposits of $41,000 have been paid), and mortgages will be assumed in the amount of $735,000 bearing interest at rates ranging from 7% to 8%. These mortgages fall due within the next five years.

4. Bank indebtedness:

Bank indebtedness includes bank loans of $40,000 against which accounts receivable are pledged as collateral. As additional collateral, there are floating charge demand debentures of $1,500,000 on all of the assets of the company.

5. Long-term debt:

The company has principal commitments of $1,000 yearly on a 8½% mortgage due March 1977.

6. Capital stock:

During the year the company cancelled all of its authorized unissued preference shares.

7. Prior period adjustment:

As a result of income tax reassessments applicable to years prior to 1972, the balance of retained earnings at April 1, 1972 previously reported as $2,682,235 has been restated to show a retroactive charge of $84,100 representing the cumulative amount by which income taxes payable as at April 1, 1972 are increased.

8. Company pension plans:

The aggregate cost to the company of the company pension plans for the year ended March 31, 1973 was $15,000. For 1974 the company's minimum pension plan contribution will approximate $25,000.

9. Long-term lease commitments:

Under long-term leases in effect at March 31, 1973 the company is obligated under leases expiring on various dates up to 2004. Minimum rental payments for the 1974 fiscal year (exclusive of other occupancy charges and rent payable based on a percentage of gross sales) will amount to approximately $990,000.

10. Remuneration of directors and senior officers:

The aggregate direct remuneration paid or payable to directors and senior officers for the year ended March 31, 1973 amounted to $316,200 ($240,997 for the year ended April 1, 1972) including $139,150 under a bonus arrangement of which $10,250 was paid as company pension plan contributions referred to in Note 8.

Auditors' Report

To the Shareholders of
Bad Boy Appliances and Furniture Limited.

We have examined the consolidated balance sheet of Bad Boy Appliances and Furniture Limited and its subsidiary as at March 31, 1973 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at March 31, 1973 and the results of their operations and the source and application of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
May 29, 1973.

Laventhol Krekstein Horwath & Horwath
Chartered Accountants.

Locations

539 Pavillion Road
Timmins, Ontario

Northgate Shopping Centre
North Bay, Ontario

450 Notre Dame Blvd.
Sudbury, Ontario

356 King Street
Kitchener, Ontario

Willow West Plaza
Silvercreek Parkway
Guelph, Ontario

Highways 26 & 27*
Barrie, Ontario

2371 Barton St. E.
Hamilton, Ontario

18 Kennedy Road N.
Brampton, Ontario

556 Kerr Street
Oakville, Ontario

38 Dundas St. W.
Mississauga, Ontario

17 Yonge Street S.
Richmond Hill, Ontario

540 Gardiners Road
Kingston, Ontario

1620 Merivale Road
Ottawa, Ontario

Metropolitan Toronto

- 37 Arrow Road
  Weston, Ontario
- 745 Danforth Avenue
  Toronto, Ontario
- 3026 Danforth Avenue
  Toronto, Ontario
- 2780 Dufferin Street
  Toronto, Ontario
- 3030 Dundas Street W.
  Toronto, Ontario
- 5230 Dundas Street W.
  Islington, Ontario
- 2665 Eglinton Avenue E.
  Scarborough, Ontario
- 1165 Kennedy Road
  Scarborough, Ontario
- 2814 Lakeshore Blvd. W.*
  Toronto, Ontario
- 45 Overlea Blvd.
  Thorncliffe Plaza,
  Toronto, Ontario
- 2737 Weston Road
  Weston, Ontario
- 1400 Bathurst Street
  Toronto, Ontario
- 4783 Yonge Street
  Willowdale, Ontario
- 822 Dufferin Street
  Toronto, Ontario

FLAW MARKET
- 2882 Lakeshore Blvd. W.*
  Toronto, Ontario

and MORE
to come...

*Opened subsequent to March 31, 1973

Management

Mel Lastman, *President*

Al Lastman, C.A., *Executive Vice-President and Secretary-Treasurer*

Real Estate Department

Keith Lansing
Vice-President, Corporate Development

Harry Ennis
Site Selection and Real Estate

Harvey Speaker
Store Planning and Development

Merchandising Department

Ben Mandell
Vice-President, Sales

Morris Albom
Appliance Merchandiser

Jack Rubenstein
Furniture Merchandiser

Max Shank
Co-ordinator of Store Openings

Manny Katz
Assistant Buyer

Sales Department

John Dortona
Sales Manager

Harold Grieve
Sales Manager

Al Yutman
Merchandise Supervisor

Hank Lang
Merchandise Supervisor

Ron Ross
Merchandise Supervisor

Advertising Department

Sam Stenzler
Vice-President, Advertising

George Diercks
Advertising Manager

Dan Blix
Assistant Advertising Manager

Store Operations and Security

Henry Cooper C.A.
Operations Manager

Arch Grant
Inventory and Security Manager

Harold Bronstine
Traffic Manager

Saul Speisman
Service Manager

Bea Godsmark
Operations Supervisor

Beth Pryce
Operations Supervisor

Edith Zon
Operations Supervisor

Administration Department

Gil Risman C.A.
Controller

Molly Walton
Finance Manager

Dorothy Harrison
Personnel Manager

Stella Carty
Accounts Manager

Paulette Henderson
Data Control Manager

Joe Pinos
Chief Accountant

Lucy Sguigna
Office Services Manager

Marg Mackie
Systems Co-ordinator

Paul Dallimore
Accounting Supervisor

Corporate Offices
76 Miranda Avenue
Toronto, Ontario M6E 4G6

Transfer Agent and Registrar
The Royal Trust Company

Listed
Toronto Stock Exchange

Solicitors
Miller, Thomson, Sedgewick, Lewis & Healy
Friedman, Burton & Eisen

Auditors
Laventhol Krekstein Horwath & Horwath
Chartered Accountants

Bankers
Toronto-Dominion Bank

Annual Meeting
Royal York Hotel
Toronto, Ontario
August 9, 1973

AR47

BOARD OF DIRECTORS

Myrle Book
Michael Curry
Jack Friedman, Q.C.
Keith Lansing
Allen Lastman
Marilyn Lastman
Melvin Lastman

OFFICERS

Melvin Lastman – *President*

Allen Lastman – *Executive Vice President and Secretary-Treasurer*

Keith Lansing – *Vice President, Corporate Development*

Ben Mandell – *Vice President, Sales*

Samuel Stenzler – *Vice President, Advertising*

Marilyn Lastman – *Assistant Secretary*

TRANSFER AGENT AND REGISTRAR

The Royal Trust Company

AUDITORS

Laventhol Krekstein Horwath and Horwath

HEAD OFFICE

Bad Boy Appliances and Furniture Limited
76 Miranda Avenue
Toronto, Ontario M6E 4G6
Telephone: (416) 787-1681

BAD BOY Appliances and Furniture Limited

PRELIMINARY REPORT TO THE SHAREHOLDERS

For the 24 weeks ended
September 15, 1973

To The Shareholders

We are pleased to submit the unaudited Statement of Earnings, and Statement of Source and Application of Funds for the 24 weeks ended September 15, 1973. Total sales for the 24 week period were $21,160,000 as compared with $14,654,000 in the same period of 1972. This represents an increase of 44.4%. Unaudited earnings after provision for income taxes improved by 57.7% during this period, rising from $526,600 to $829,700. Earnings per share after adjusting for a 2-for-1 Stock Split in August were 41.5 cents as compared with 26.4 cents in 1972.

Business was quite favourable in the 12 week period ended September 15, 1973. Total sales in this period increased 42.3% to $12,170,000 while net earnings recorded a gain of 44.9% to $526,700. The sales of our new stores in Kemptville and Barrie, Ontario which opened since year end have met our expectations. In October we took possession of our new 200,000 square foot warehouse on Bethridge Road, Etobicoke and expect this new facility will enable us to bring a significant improvement in delivery service to our customers.

Construction has begun on stores in Oakville and North Bay which will replace existing smaller locations. In addition, our Kennedy Road and 2780 Dufferin Street stores in Metropolitan Toronto are undergoing a significant expansion. We have also entered into a lease agreement for a new store in Metropolitan Toronto with occupancy scheduled for Spring of 1974.

We are planning a major expansion programme for next year the details of which will be announced as commitments are finalized.

In November, our present head office location will be moved to 2770 Dufferin Street, Toronto.

Melvin Lastman
President

Allen Lastman
Executive Vice-President

October, 1973.

BAD BOY Appliances and Furniture Limited
and wholly-owned subsidiary

CONSOLIDATED STATEMENT OF EARNINGS
(UNAUDITED)

for the twenty-four (24) weeks ended September 15, 1973

	September 15, 1973	September 16, 1972
Sales	$21,159,600	$14,654,000
Earnings from operations before the following charges	1,735,900	1,071,700
Depreciation and amortization	42,000	39,100
Income before income taxes	1,693,900	1,032,600
Income taxes	864,200	506,000
Net earnings	$ 829,700	$ 526,600
Basic earnings per share (note 1)	41.5¢	26.4¢

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
(UNAUDITED)

	Twenty-four weeks ended September 15, 1973	Twenty-four weeks ended September 16, 1972
Source of funds:		
Operations:		
Net earnings	$ 829,700	$ 526,600
Add: Non-cash charges to earnings:		
Depreciation and amortization of fixed assets	42,000	39,100
	871,700	565,700
Application of funds:		
Purchase of land and building costs	676,000	275,600
Less: Mortgage thereon, long-term portion	—	165,000
	676,000	110,600
Less: Proceeds from sale of land and buildings, net of long-term debt	327,000	—
	349,000	110,600
Deferred rental costs	106,700	—
Store improvements and other fixed assets	68,500	208,400
Deposits on land	—	20,000
Tax paid to create tax paid undistributed surplus	10,500	—
Dividend paid out of tax paid undistributed surplus	60,000	—
	594,700	339,000
Increase in working capital	277,000	226,700
Working capital at beginning of period	2,999,400	2,354,800
Working capital at end of period	$ 3,276,400	$ 2,581,500

Note 1: Basic earnings per share during the respective periods give retroactive effect to a 2:1 stock split in August, 1973.

Note 2: In August, 1973, the company set aside 68,000 shares to be exercised, over 5 years for an employee stock option plan. There is no material dilutive effect on basic earnings per share to date.